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FISCAL IMPACT STATEMENT

LS 7062 **NOTE PREPARED:** Jan 3, 2010
BILL NUMBER: HB 1359 **BILL AMENDED:**

SUBJECT: Property tax deduction for qualified improvements.

FIRST AUTHOR: Rep. Clere **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL** **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: This bill establishes a property tax deduction for a qualified improvement, which is real property that has been renovated or rehabilitated at a specified cost of which at least 50% is dedicated to renovation or rehabilitation of exterior components.

The bill provides that: (1) the deduction applies in the amount of 100% of the resultant increase in assessed value for a period of five years (or ten years if the qualified improvement qualifies as a historic qualified improvement); (2) the deduction applies in reduced amounts for the next five years; and (3) the owner of the qualified improvement must apply to the county auditor for the deduction.

The bill directs the Department of Local Government Finance (DLGF) to adopt rules. It also provides that the property owner may apply for the deduction for the qualified improvement or one of the deductions under current law that apply for rehabilitation.

Effective Date: Upon passage.

Explanation of State Expenditures: Under the bill, the DLGF must adopt rules and may adopt emergency rules to implement the deduction for renovations.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: This proposal would permit counties to grant a property tax deduction for qualified improvements. To qualify, the cost of the renovation or rehabilitation must be at least $15,000 (adjusted for CPI after 2011) and 50% of the cost must be devoted to the exterior.

The deduction base for each year equals the difference between the current AV amount and the AV immediately before the renovation or rehabilitation. Each year, the deduction base would include the value of the renovation or rehabilitation plus any change in overall value due to reassessment or annual adjustment.

For historic qualified improvements, the deduction would equal 100% of the deduction base for each of ten years. For other qualified improvements, the deduction would be available for five years as follows: Year 1 - 100% of the deduction base; Year 2 - 80%; Year 3 - 60%; Year 4 - 40%; and Year 5 - 20%.

This proposal would not affect the existing tax base. If there is an increase in qualified improvements because of the deduction, then the value of the improvements would be added to the tax base at some point in time and would help to reduce tax rates. However, if one assumes that the improvements would be made with or without the deduction, then the granting of the deduction under this bill would delay the normal shift of the property tax burden from all taxpayers to the owners of the improved property that would have otherwise occurred. In either case, the fiscal impact depends on local action.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County fiscal bodies.

Information Sources:

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